

**TOWN OF FOUNTAIN HILLS  
MINUTES OF THE WORK STUDY SESSION  
OF THE  
FOUNTAIN HILLS TOWN COUNCIL  
DECEMBER 8, 2009**

**AGENDA ITEM #1 – CALL TO ORDER AND ROLL CALL**

Mayor Schlum called the meeting to order at 5:31 p.m. in the Fountain Hills Council Chambers.

Present for roll call were the following members of the Fountain Hills Town Council: Mayor Schlum, Councilmember Contino, Councilmember Leger, Councilmember Brown, Vice Mayor Hansen, and Councilmember Dickey. Town Manager Rick Davis, Town Attorney Andrew McGuire, Deputy Town Manager Julie Ghetti and Town Clerk Bev Bender were also present.

Councilmember Archambault was excused from the meeting.

**AGENDA ITEM #2 – DISCUSSION REGARDING THE LEASE AGREEMENT BETWEEN THE TOWN OF FOUNTAIN HILLS AND THE FOUNTAIN HILLS COMMUNITY THEATER THAT EXPIRES ON APRIL 6, 2010.**

Town Manager Rick Davis addressed the Council relative to this agenda item and advised that some time ago the Town was contacted by the Theater and was apprised of their desire to renew a lease for the property that was currently occupied by the Fountain Hills Community Theater as part of their efforts to secure some grant monies and other donations to expand that facility. He said that since then, the Town had also become aware of a few issues that they were going to have to address and noted that Town Attorney Andrew McGuire would discuss that situation.

Mr. McGuire addressed the Council and advised that the Community Center had come into the Town's possession in a circuitous way; it was donated by MCO's predecessor, Pratt, to the Fountain Hills Civic Association long before the Town was formed. He added that after the Town incorporated, the Town came into possession of all of the things that the Civic Association had, including this piece of property. He said that its intended use was as a Community Center (that was what the deed restriction stated) and it was associated with all of the different uses for which a Community Center would be utilized. He explained that since the time that the present Community Center was built on the 15 acres in Town Center that was swapped, the Community Center activities ceased at the former facility for the most part and it had operated as the Community Theater since that time. He noted that the Town has had a lease on that building with the Community Theater for quite some time and a request had been received to extend that lease out for a 99-year period to allow for better fund raising efforts by providing more surety to those people donating that the Community Theater would be in existence for a long period of time.

Mr. McGuire informed the Council that staff had reviewed the documents that they had but had not done a preliminary title report or any title work to obtain any documents that they might not know of and he believed, unless there were other documents out there, that the deed restriction was still in place over this property. He said that it was released on the 15 acres so that the Town could use this area for government uses as well as Community Center uses. He pointed out that when they built the new Community Center it still met the terms of the conditional grant but added that this building would not

have; it would have been purely governmental. He stated that the release that was granted in 1997 covered just the 15-acre parcel and not the old Community Center property. He said that they had not found anything to release the deed restrictions on the small property that the old Community Center sits on and that the Community Theater currently used. He stated the opinion that this caused some concern because if the deed restrictions were still in place, as they appeared to be, then the temporary use for civic and cultural activities like the Community Theater would probably not be considered temporary, if the lease was for 99 years, as that might stretch the definition a little bit. He further stated that whether or not the reversionary interest would ever be exercised was a question for MCO to answer. He advised that he believed this was something that they should explore more deeply before deciding to go that long into a lease agreement.

Mr. McGuire stated that what they had before was discussion regarding the fact that the lease could go on in perpetuity for "chunks of time." He expressed the opinion that either the property being deeded directly over to the Community Theater so that they could operate the building and own it or the Town granting a long-term lease like the proposed 99-year lease were probably not going to be appropriate options under the deed restrictions. He added that staff could conduct additional research if the Council wanted to take the next step and evaluate whether or not they could pursue a longer term lease (spend the money on a preliminary title report and talk to MCO in an effort to find out if something had been recorded that staff was not aware of). He said that if the reversionary interest went back to MCO, then the next step would be to talk to them about the reversionary interest. He pointed out that they had released it on the 15 acres to allow this building to be part of the Civic Center with the Community Center so that might be the next discussion to have. He stated that staff believed that those preliminary documents were still active and needed to be addressed in some way if they were going to move on this.

Mayor Schlum thanked Mr. McGuire for his input regarding this issue.

Vice Mayor Hansen asked whether staff had the language that was contained in the deed restrictions and he confirmed that he did. The Vice Mayor said that she thought that it allowed Civic and Cultural purposes as well and Mr. McGuire replied that it did, but they had to be subordinate to the Community Center. Mr. McGuire read the language into the record and noted that it spoke to a temporary use that could not interfere with the Community Center's main use. He said that they had always considered it to be a temporary use until the Town built the facility.

Vice Mayor Hansen stated the opinion that it would be easy to go to MCO and simply say, "Would you mind just doing a very simple document to release it?" She noted that that would solve the problem and eliminate the need for additional staff research and Town expense.

In response to a question from the Mayor, Mr. McGuire advised that the land was a restricted gift and deeded to the Town for the purpose of a Community Center and the other subsidiary things that could go along with that at the same time. Mayor Schlum asked if they needed to consider the length of term. He said that, on the surface, he was all for empowering a group to raise a great deal of funds to benefit the community to whatever extent possible. He asked whether concern existed as far as the Town being a municipality and having a private user tie up a Town property for a long period of time. He noted that they had similar discussions regarding the Fountain Park property and asked as long as it was for the public's use whether it would be okay.

Mr. McGuire stated that the idea of the gift clause was in vogue once again with the City North case that put the issue back into the spotlight (what exactly was the test for private use, public benefit and

when it was an illegal gift under the Constitution and when it was not?). He pointed out that for a couple of decades they had all been living under a case that seemed to put to the test a method of how to determine public benefit and now the Court of Appeals had "turned that on its ear" a few months ago and everyone was waiting to see what the new standard would be or if they would go back to the old one. He reported that generally under those cases it had been determined that if there was a public benefit deriving from the gift, even if it went to a private party, if the public benefit outweighed what you were getting back from the private side, then it was typically okay. He said that the early cases had dealt with things like hospitals.

Mr. McGuire informed the Council that when they talked about this before they were pretty comfortable in terms of leasing the property for a low rate providing the Community Theater was probably going to be okay to pass the test (not the current Court of Appeals version). He stated that what they had previously told the Council was that staff was comfortable with the leasing, but long-term leasing, like the proposed 99-year lease, started to get closer to becoming a sale and there might be more of a problem associated with that. He added that in terms of the kind of use, he believed they had always been comfortable that this was the kind of use that probably had sufficient benefit to qualify. He noted that the private benefit was to an entity that really did not make a profit so they had held a fairly strong stance because they believed it to be a fairly safe bet. He reiterated that might all change depending upon the ruling. He advised that was the reason why the Town had stuck with leases for fairly short periods of time (5-10 years) rather than going with long-term leases or a sale.

Mr. McGuire further stated that with a sale in addition to the deed restrictions was the value of the property and whether or not it would require a public vote. He pointed out that if the price was more than \$500,000, a vote would be required. He added that with the deed restriction in place he did not believe they had to worry about that yet but said it was another one of the issues that they had wrestled with the last time they discussed this.

Councilmember Leger expressed the opinion that it would not hurt to get the additional information that they needed. He said that he would defer to their attorney's thought process in conducting more research and added that it was better to be safe than sorry in terms of making this decision for the community. He noted that the material in the Council's packets talked about a possible conflict with the Downtown Vision Plan and pointed out that within that Plan they were looking at the possibility of a performing arts center. He stated that he was not sure that there was a conflict there and said that a performing arts center would be sponsoring much larger events. He asked if anyone could clarify for him the issue regarding a conflict of interest.

Deputy Town Manager Julie Ghetti addressed the Council and said that there was conversation about the fact that in the Downtown Visioning Plan there were plans for a performing arts center. She had included it for consideration since they were talking about a 99-year lease for a performing arts facility or a theater whether it conflicted or not. She stated that there was no statement saying that a conflict existed; it was rather "is there a conflict between what the Visioning Plan is?"

Councilmember Leger said that it was a matter of opinion at this point in time.

Mayor Schlum commented that he was expecting that question to be raised and added that it was included because the property adjacent to the Library was envisioned for a performing arts building, not just the piece down by the Fountain, which was being considered for a larger outdoor events area (the area in the Civic Plaza).

Councilmember Leger advised that he did not remember Swaback proposing a performing arts building at the location that the Mayor was referring to (next to the Library). He said that he thought there was discussion about it being elsewhere. He added that regardless, unless the business of the Community Theater changed, he saw them as two separate venues in terms of the production sizes.

Vice Mayor Hansen noted that there was discussion about a performing arts center, the number of seats that would be in that purview and whether the Community Theater would use it. She advised that their answer at that time was "no, they would not because if there was a facility that large the royalties would be too high." She added that even back then they had said that they would remain in their own theater.

Councilmember Dickey asked what the ramifications of capital improvements would be, major or minor, to the building. She asked what the ramifications would be of adding value to the building at their expense.

Mr. McGuire responded that the building would become more valuable and so the Town's asset would become more valuable. He expressed the opinion that no provision existed in the grant documents relative to personal property or improvements to the real property or anything but the property of the Town but he indicated that he would check on this. He added that it would be much like any other government-owned piece of property -- if people made improvements to it, they were improving the value of the government's property, but it did not give them anything. He said that because the lease was "low dollar" (he believed it to be \$1.00), the consideration of improvements might be fair consideration for not having a lease payment. He advised that, in the end, it would not help anyone but the Town in terms of the building subject to the conditions.

Councilmember Dickey said that she had asked that question based on the Mayor's inquiry as to what happened, if the value of the building went up.

Mr. McGuire commented that even in this current dismal market they were probably past the threshold on it. He stated that there is enough real property there, plus the buildings, to bring the total past \$500,000.

Councilmember Brown asked what would be a reasonable length of time to do the discovery and/or resolve issues regarding the removal of the deed restriction.

Mr. McGuire replied that staff could find out pretty quickly whether there were any other documents out there that they had not found yet. He noted that a preliminary title report from local title companies could be done in a week or two depending on how busy they were and he tended to believe they were not as busy right now. He added that the next step, if it was in place, would be to have a conversation with MCO. Since it was the holiday season, he would not commit anyone to a quick turnaround, but it would not be difficult to do since the offices were nearby.

Councilmember Brown advised that he saw two options: (1) Since the lease was up on April 6th they could wait until after the first of the year to see what discovery provided regarding the deed restriction and then make a good decision; or (2) they could possibly extend the lease for one year and not rush into deciding what they were going to do and then resolve it over the next year.

Councilmember Contino said that the materials indicated that there were attachments (a letter dated 9/23/09 for a diagram of the proposed renovations) and asked if staff had copies of that.

Ms. Ghetti responded that the attachments should have been included in the packet -- the diagram as well as their letter requesting the extension. She advised that there was a letter that the Theater submitted to the Town requesting an extension of the lease, because it expired in April 2010, for 99 years. She explained that purpose for wanting that length of time was that they wanted to be able to solicit funds to do a major expansion of the project. She added that before they could obtain a commitment for those funds their feeling was that if they had a commitment from the Town that they were going to have possession of that property for 99 years, they would have a better chance of obtaining the funds. Ms. Ghetti apologized to the Council, if the documents were not included as part of their packets, and said that she would make sure that the documents were forwarded to the Council tomorrow.

Councilmember Contino asked how much the Town had spent on the building (in repairs) since they began to lease it.

Ms. Ghetti advised that she did not know the amount but would obtain the information and forward it to the Council.

Val Stasik advised that there was initially a 10-year lease and then one five-year extension so the Theater had been leasing the property for 15 years.

Mayor Schlum asked what the time line was for the Theater as far as funding and what their wishes were as far as a new lease.

Ms. Stasik said that obviously they wanted to get started with their fund raising efforts and noted that they had an endowment that was set up and some money had already been put into it. She noted that the hardest thing right now was trying to design plans and get going on it so they could actively solicit funds. She added that as far as a timeline, everything hinged on this decision because if they did not have the security of the property, they could not do the kind of improvements and remodeling that they would like to do. She stated that she would like to see it happen at least within the next ten years (breaking ground and putting things up). She said that she believed they had gotten off to a good start and lots of support existed.

Mayor Schlum asked if the current economy would stop them from pursuing a fund-raising effort should they get a longer term lease.

Ms. Stasik said that she did not think so and added that if they could prove that they had the kind of support that they were asking for from the Town, the community and the citizens, the grantors (Piper, etc.) very often would match the monies raised. She noted that was what they had done in Peoria. She emphasized the importance of having that kind of security to show them in order to gain their support.

Councilmember Leger asked, in the absence of the diagram, whether Ms. Stasik could give the Council a sense of what the group was looking at accomplishing in terms of the project's scope.

Ms. Stasik responded that their vision would be for one building that would house both the youth theater and the main stage theater, which contained sufficient area for their workshops, classes, rehearsals, etc. She said that they could not afford to not be in operation so they were thinking about doing it in a kind of piecemeal manner. She noted that right now the building stood in a parking lot and they would love to see a larger building in another direction, which would overlook the Reservation, the Fountain, and everything else. She added that they also envisioned having a nice

lobby area with one main entrance going into two separate theaters. She noted that they would get rid of the old Library and operate out of the Community Center until they were ready to go and then they could free up the whole parking lot and get rid of some of the buildings that were pretty old.

In response to a question from the Mayor, Mr. Davis said that it was staff's understanding that they would move forward with the document search and try to discover any other restrictions in an effort to gain a clearer understanding of what those were. He added that staff would also engage in a discussion with MCO.

Mayor Schlum added that the Council would also like information relative to how much money had been spent on repairs to date and what was needed, if a 99-year long lease was not an option (something everyone could all be comfortable with -- what was needed to leverage the Town commitment).

Mayor Schlum asked whether the gift law issue would be decided and Mr. McGuire stated that there were indications that it would be sometime this month but they had not heard anything about it to date. He said that if they got to next week and had not heard anything, chances of getting a decision before the end of the year would decrease. He advised that the case was in the Supreme Court at the current time.

Mayor Schlum thanked everyone for their input.

**AGENDA ITEM #3 – DISCUSSION REGARDING INVESTMENT OPTIONS FOR THE TOWN'S IDLE FUNDS WITHIN THE FINANCIAL POLICIES/INVESTMENT POLICY.**

Deputy Town Manager Julie Ghatti addressed the Council relative to this agenda item and explained that this item was before the Council this evening for a discussion on the Town's current investment policy and process and to get a "comfort level" from the Council on a change that staff would like to make.

Ms. Ghatti advised that all of the Town's idle funds were invested currently with the State Investment Pool in government securities. She said that they were very safe and very "liquid." She stated that the Town has invested there for as long as she had worked for the Town. She noted that the Town's current investment policies allowed for other investments that were equally as safe and the past year the State Pool's return on their investment had been less than 1%. She stated that staff would like to look at staying within the guidelines of their investment policy and perhaps taking advantage of other opportunities to invest funds and get a little bit higher return. She stressed that this proposal would not expose the Town to any more risk -- the risk would not change, it would just be a different vehicle. Ms. Ghatti explained that the Pool in which all of their funds were invested operated like a money market and was very "liquid" and upon sending them notification, the Town could obtain their money. She noted that because they were "liquid" they could not take advantage of any investments (tied up for three or six months).

Ms. Ghatti noted that the Town had idle funds that they had no intention of appropriating or using, particularly their fund balance (\$6.7 million), which was currently in the State Treasurer's Pool. She explained that if they could take advantage of investing it with Government Securities, they might be able to "bump up" their return on their investment by perhaps 2%. She added that for each 1% that they could increase, their return on investment would be \$65,000, which could be put into the General Fund (operating fund). She informed the Council that one of the reasons the Town was in the LGIP

(Local Government Investment Pool - Government Securities) was because some of the transactions when they were in the regular LGIP, whereby they had some funds with the Trustee that had invested them not the way the Town would have wanted them to. The Town had recovered the money, but at the same time, the Council became very nervous and said "we only want to invest in Government Securities." She advised that the current financial policy said that they could only invest in Government Securities or those that were backed by the full faith and credit of the Government.

Ms. Ghetti stated that the goal of the Town's investment policy was always the preservation of principle; it was never for risk. She said that there were cooperative agreements that they could take advantage of where the Town could take some money and put it with another investment company that would only invest in Government Securities (the money would still be safe but the return would be higher because the Town would not need to have it on 24-hours notice). She added that staff would also like the Council to possibly consider putting it out to bid to some of the local firms -- some of it -- they would not invest all of the money with one company. She said that they would keep some of it in the pool, some with another investment company and put some out to bid to the local firms so they could also participate. She stated that each one of the firms that they would invest with would be required to acknowledge and sign the Town's financial policies, which clearly stated that it was "preservation of principle, it was not return on investment" and so they would be required to follow those policies when investing the Town's funds.

Ms. Ghetti further stated that before they moved forward she wanted to let the Council know that this was not a change as far as what they had done in the past; they had only been in the Pool -- that had been the only place they have invested and now they were in the Pool with Government Securities. She said that staff would like to take advantage of the opportunity, now that interest rates were so low and the Pool's returns were lagging, to look at other opportunities. She noted that when the interest rates started going up the Pool would lag significantly behind that. She advised that the proposal was in line with the Town's current investment policy and would not require any changes or involve any risks. She added that it would provide the Town an opportunity to obtain a better return on its investment that could then be used for operating money.

Ms. Ghetti indicated her willingness to respond to questions from the Council. Mayor Schlum thanked Ms. Ghetti for her presentation.

Mayor Schlum asked Ms. Ghetti what was keeping her from doing that right now and she replied that several Councils ago the members became very uncomfortable because of what was going on in the market and they were worried about the Town's funds. She advised that they did have an investment in the Pool, which the Pool lost -- about a \$33 million loss -- of which the Town lost \$163,000. She said that the Town had recovered about half of the \$163,000 but the Council at that time had become very nervous and said "only invest in Government Securities", so staff had followed that direction.

Mayor Schlum asked for confirmation that staff was not looking to change the Town's policies, they were simply looking for a "comfort level" from the Council and Ms. Ghetti concurred.

Mayor Schlum commented that the various options would be within the investments specified in the policy in place today and staff was looking to utilize more of those options to receive maximum benefit. Ms. Ghetti agreed with the Mayor's statement.

Ms. Ghetti also confirmed that the alternative options would not present any additional risk to the Town. She stated that they could tie up fund balance monies for longer periods of time (still in Government Securities) and receive a better return.

Councilmember Dickey asked whether Ms. Ghetti was saying that they were not putting the Town in a situation where the incident that happened before could occur again and Ms. Ghetti assured the Council that there would not be any more risk involved. She explained that the previous incident involved construction money held by a Trustee, which was required by the bond covenants and they could not have possession of that money. She said that the Trustee had invested in Pacific Gas & Electric (PG&E), which was not a good investment, and they did recover all of their money plus interest and attorney fees, but it had made everyone nervous.

Councilmember Dickey asked whether an investment firm would be making commissions on every transaction. She questioned what would be different from what they were doing now.

Ms. Ghetti responded that they would be making money because that was their business but reiterated that they would only invest the Town's funds in Government Securities and that would keep their principle safe. She emphasized that their goal was not to put any of it at risk but rather to get a little better return. She added that even if they could get 1% more return, the risk was not any greater; they could just invest in things a little bit longer, because the Town was not going to call them up and ask for the money within a 24-hour period.

Councilmember Dickey noted that not every firm received a commission per transaction and said that she just wanted to make sure that they would not diminish their 2% return by paying more commission. She added that she did not know how they did it right now and she wanted to be aware of that aspect of it.

Ms. Ghetti said that 2% would be great but right now the Town was getting a lot less than that. Councilmember Dickey asked whether they would be hearing more on this before staff proceeded.

Mayor Schlum asked what Ms. Ghetti needed from the Council at this point in time.

Ms. Ghetti stated that she was seeking direction from the Council to pursue the proposal but strongly emphasized that before anything was done, staff would bring this matter back before the Council for their consideration and direction. She added that as far as dealing with the local organizations, that would require a public bid and that would have to go through the bid process. She said that before she conducted further research she had wanted to ensure that the Council was comfortable with it.

Councilmember Contino said that since the Government was already printing Euros, he wanted to know whether the return would be in dollars or Euros; Ms. Ghetti replied that she would assume it would be in dollars but was not sure.

Mayor Schlum thanked Ms. Ghetti for her presentation.

#### **AGENDA ITEM #4 – INTRODUCTION OF LEVELS OF SERVICE FOR PROGRAMS FOR BUDGET YEAR 2010/2011.**

Deputy Town Manager Julie Ghetti addressed the Council relative to this agenda item and said that staff wanted to present an introduction into next Fiscal Year's budget. She advised that staff had



started working through and planning what they were going to do and this presentation was just an introduction into the process that staff was going to follow.

Ms. Ghetti stated that staff's plan for Fiscal Year 2010/2011 was that they knew that the General Fund revenues would be down 11% from Fiscal Year 2010, they also knew that other operating funds would be down about 5%, and those were funds dependent upon local sales tax such as the Downtown Fund and municipal property. She added that the HURF revenues would be down an estimated 8% and the CIP budget, which was funded from construction sales tax, was expected to continue declining for at least two more years.

Ms. Ghetti discussed staff's strategy for the new fiscal reality (a copy of the presentation available in the Town Clerk's office) and a chart that was provided to the Council a few months ago, which depicted how staff was making decisions; the fact that what they were going to do was deal with non-essential (S.T.U.P.I.D.) items (time consuming, unnecessary and/or expensive); the fact that staff had completed that process; the fact that staff then looked at things that could be delayed or where there were one-time expenditures and an effort was made to identify ways they could be more innovative and creative, the fact that at the current time staff was at the third level on the chart -- looking at programs that the Town offered and possible cuts in service including personnel layoffs as well as salary, benefits and COLAs (Cost of Living Adjustments); the fact that there had already been a reduction in staff (two Building Inspectors, one Permit Technician, one CAD position and other part-time positions) due to the fact that there was not enough work in those areas to justify the positions and impact to the citizens would be minimal.

Town Manager Rick Davis addressed a question from Councilmember Dickey and reported that the net fiscal effect on the budget for next year was in the realm of approximately \$350,000.

Mr. Davis highlighted the next chart in the presentation (What program/level of service will be considered?) and said that as they moved forward into the formation of the next budget and Council participated in the Envisioning and Goal Setting Retreat in January, they were going to be talking about levels of service and possible cuts to programs (whether personnel or other expenditures) and said that the chart listed some examples of programs that might be affected, which included:

- \* Open space/median maintenance
- \* Environmental programs
- \* Code enforcement
- \* Building maintenance
- \* Marketing
- \* Recreation programs
- \* Auditing programs
- \* Park maintenance
- \* Community programs
- \* Special events
- \* Transportation programs
- \* Community benefit programs
- \* Customer Service

Mr. Davis said that at this point in time he did not anticipate that staff would recommend the elimination of a program and added that what they were more typically going to see was a decline in level of service. He explained that when positions were eliminated, levels of service were affected and

when they cut budgetary expenditures, non-personnel items, they affected the level of service. He stressed the importance of beginning to think in terms of programs and not just people. He stated that Ms. Ghetti would address the Council regarding Outcome Based Budgeting. He explained that they had decided to present the budget this year a bit differently than in prior years in that they had a new Strategic Plan, the purpose of which was to gather input from the public and articulate to the policy makers what citizens' expectations were. He added that once they had an understanding of that and they had their Strategic Plan and focus areas, they could begin working on identifying outcomes that were desired. He noted that the outcomes were actually articulated best in the Council's goals -- the things the Council sees and envisions what the Town doing to meet the citizens' expectations. He said that those areas were then passed on to the department directors who put together departmental business plans or budgets and the congregation of those departmental budgets composed the annual budget. He stated that they wanted to take this approach, using citizens' expectations as the basis, which was the essence of Outcome Based Budgeting.

Mr. Davis advised that as staff stated last October, if they continued to do things the way they had always been done they could always expect the outcomes that they had always received. He added that looking back at what they spent last year and saying "what will it cost to do what we did last year?" was not going to work anymore and this was part of reinventing what they did in Town Hall and what services were provided.

Ms. Ghetti discussed budgeting for outcomes and said that staff asked the question, "How do we deliver the results that citizens want at the price they were willing to pay?" She noted that the overall price of government was fixed for the nation (citizens were only willing to spend so much of their tax dollars -- the aggregate for schools, governments, etc.) but the costs of government were not. She explained that the fiscal crisis facing the government today was not really a crisis but rather a permanent condition. The Town was managing though this; they knew that there was a change in revenues and significantly less revenue, but they would continue to plan and move forward. They would continue to run the Town and do the best job they could with the resources available.

Mr. Davis referred to a graphic depiction of outcome based budgeting starting with the Strategic Plan. He said at the Retreat, staff would spend a lot of time with the Council allowing them to articulate or envision what outcomes they needed in order to (to the best of their ability) meet citizen expectations as articulated by the Strategic Plan. He added that from there, staff would take those outcomes and combine together a series of business plans that would compose the annual budget.

Ms. Ghetti informed the Council that through this process, staff would allocate available resources. She emphasized that there were some things that the governments simply must do and they called that their 10% for overhead but that was actually programs that were necessary to run the government. She added that they were then going to allocate resources according to the SPAC (Strategic Planning Advisory Commission) or citizen priorities.

Ms. Ghetti further stated that staff would then develop a purchasing plan (planning tool) -- to identify where to put the money to get the best results. Ms. Ghetti also referred to a Multi-Year Projection - General Fund, which had been previously presented to the Council that projected General Fund Revenues and Expenditures (estimated) out five years. She reiterated that all decisions needed to be long-term sustainable decisions. Ms. Ghetti indicated her willingness to respond to questions from the Council.

Mayor Schlum thanked Ms. Ghetti and Mr. Davis for their presentation.

Councilmember Dickey indicated that she did not accept that the overall price was fixed, but that the costs changed. She said she was not sure that she was totally on board with the concept presented as she believed that things did change; it went along with the statement that this was a permanent condition and not a crisis. She commented on the fact that the State collected income tax and the Town did not; however, the State had other levels of taxes that the Town shared. She offered her opinion that she did not feel this would be a permanent condition but believed the situation would improve and that there would be people moving here again and as well as all other things. She stated she did not want the Town to look at future budgets based on the idea that "this is it -- it's bleak." She added that she hoped as they discussed all the challenges that they did not lose sight of the things that they wanted to do.

Councilmember Dickey commented on the Town's recent reduction in forces and noted that they had occurred due to no work in those areas and that it was not because of knee jerk reaction that the Town needed to save the money and get to a number however they could. She stressed the importance of keeping their eye on the ball and where they wanted to be in the future. She indicated that she was not totally on board with what staff had discussed.

Councilmember Dickey also commented on the Public Safety contract with the Sheriff's Department and noted that that was coming up this year. She stated that they had been very fortunate to speak with Public Safety when it came to fire protection and had ended up getting quite a bit less (hundreds of thousands of dollars less) and she did not know if they could expect that now so keeping that in mind she hoped that this too was also part of the discussion because it was a huge part of the budget (half of the 40% of the State shared revenues).

Mr. Davis said that Councilmember Dickey had made some excellent points and if he was sitting as a Councilmember he would also feel the same way about the future, but fiscally they did not have the latitude to think any other way than it was permanent. He added that they wanted to remember that all of their fiscal policies and budgetary policies were focused on maintaining the organization's integrity, living to fight another day, and preserving their service levels; however, at the same time (as stated in Good to Great) facing the brutal realities. He stated that he wanted to be optimistic, but they needed to behave as though they did not have anything "coming over the hill like the cavalry."

Councilmember Dickey said she did not feel that was what she was saying. However, to think there was not going to be an increase in revenue ever again for any part of the State, to her, was not economically feasible.

Mr. Davis advised that he understood that but noted that expenditures were going to go up at the same time. He further stated that the revenue support for the Town was based on antiquated assumptions (economy) and they were not seeing the vibrant economy they had back in the 1990's and mid 2000 and they certainly were not building the way they used to. He added that until they fixed the fundamental mechanics of that (how they supported the Town) given the increasing costs of doing business in the Town, even if the economy improved, they were always going to have to be extremely careful about every dollar spent while trying to preserve. The intent was to preserve how the Town did business, the quality of life, but at the same time they had to be cautious that unless something fundamentally changed with how the Town was supported, they would always have to be very careful about how each dollar was spent.

Mr. Davis said that, hopefully, the outcome based budgeting model (as proposed with revenues) would help them refocus on how the money was spent, not just on how revenues were brought in. He asked

the Council to consider what things were really of the most importance to all and then focus the resources on all of that, cutting out the rest, if need be. He stated the opinion that by refocusing he felt they would end up improving the quality of life, not diminishing it.

Mayor Schlum said that although this was a very trying time and he acknowledged that it was going to get worse before it got better, he did not see their Town or their Council being a Council that talked only about what they could not do because of the situation. He stated the opinion that they would always find ways to make things happen because their citizenry or organizations would step up and they would find more and more innovative ways to maintain the things that the community valued. However, he reiterated that it was going to be a very trying time so they must maintain their optimism and focus on doing it smartly. The Mayor commented that there would be less government because of the cost.

Mr. Davis concurred with the Mayor's comments and noted that he felt it would make the community stronger because the community was going to have to come together and do more things for themselves (depend less on government to do it). He said that he was optimistic that through this process they were going to find better ways to do things. He pointed out that the whole world was in a fiscal crisis, but they would only get into trouble if they spent more than they had. He added that he had so much confidence in staff, the department heads, and the Council and that he believed that they were going to be able to stay out of that.

Mr. Davis pointed out that he just wanted the Council to know that as staff brought the tough decisions to them, that there was a seam between how they were doing it right now and how they eventually would adapt to their new norm. He stated that there was going to have patience and tolerance exercised while they figured out the new ways to do things. He noted that it would not be seamless and there would be a little "bump" in the pavement as they did that but they hoped to be able to keep everything together. He advised that levels of service in some areas might change. The Town would still get things done but maybe not like they used to.

Mayor Schlum said that what Mr. Davis and Ms. Ghetti were trying to prepare them for was when they came to the Retreat in January and started talking about their goals, visions and values, noting that they were going to have to realize that they had less money and Mr. Davis and Ms. Ghetti were going to want them to strategize on what program areas they might be more comfortable cutting.

Ms. Ghetti concurred with the Mayor's statement and said that they were trying to show the Council that they had a plan, that they were working through the plan and that they were going to do the best they could with the resources that they had. She added that any proposals that they gave to the Council on where they thought levels of service could be changed; staff hoped the Council would be supportive. She noted that the Budget Committee was working on this to ensure that the changes had the least impact as possible on levels of service.

Mayor Schlum noted that the prior cuts did not affect levels of service but cuts in the future would be different. He asked if the \$1.6 million shortfall was a \$1.6 million year over year reduction in revenues coming in.

Mr. Davis responded that it was hard for him to tell if they were going to face another \$1.6 million deficit the following year or if things were going to change. Mayor Schlum stated that the General Fund would go from \$14.5 million to \$12.9 million and Mr. Davis concurred.

Mr. Davis commented that they certainly could see a decrease in the following year and they knew that the situation they were facing right now was the "aftershocks" of the deep recession that the State has been in. He clarified that the decrease in revenue was not the result of a Legislative action; it was a consequence of the economic times that hit the Town in a delayed manner. He added that they knew that at least for the next two years they were going to face these holes in the budget.

Mayor Schlum said it was good for the Council to see the numbers and how they broke down. He noted that in 2005-06 their operating budget was approximately \$18 million, this year they were at \$14.5 million, and next year they could be below \$13 million -- a little more than a \$5 million reduction in the operating budget over six years. He stated that levels of service, to staff's credit, had been maintained up to this point, but they were now talking about some dramatic reductions and then when they factored in public safety at about \$6 million, they were talking serious dollars. He said that maybe there would be a way to save further in that area but pointed to the fact that they had considerable challenges ahead.

Councilmember Dickey stated that in order for the Council to prepare for the discussions in January, she felt it would be good obtain the whole picture of everything, including capital and any grants that they had gotten so that they really knew what the bottom line was that they are talking about and what they were cutting, whether the decisions were being made for one or two years or if the complexion of the Town was changing, or were they saying take a breath from capital projects, to a large extent, for the next couple of years, and would that get us to where we needed to go without hurting our population or hurting them as little as possible. She stressed the importance of seeing the entire picture.

Mayor Schlum thanked Vice Mayor Hansen and everyone who helped with the Town's 20th anniversary celebration and said that as he mentioned at that time, they were going to need more volunteers to step up and more organizations to help them with things.

In response to a question from Councilmember Leger, Mr. Davis explained that the shortfall was a combination of increases in costs but primarily was due to a decline in revenue. Councilmember Leger referred to a slide with the 10% figure and asked where public safety fit into this.

Ms. Ghetti replied that the 10% was not any part of the budget. She said that there were general items that the Town had to have. Councilmember Leger commented that the baseline was not zero then, but 10%.

Mayor Schlum commended staff on being proactive and said that it made the process a lot less painful.

Councilmember Hansen requested a copy of the full presentation and Ms. Ghetti advised that staff would provide all of the documentation for the Council's review.

Mayor Schlum thanked Mr. Davis, Ms. Ghetti, the Budget Team and staff for all of their efforts in this important area.

#### **AGENDA ITEM #5 – ADJOURNMENT.**

Councilmember Dickey **MOVED** to adjourn and Councilmember Leger **SECONDED** the motion, which **CARRIED UNANIMOUSLY** by those present (6-0). The meeting adjourned at 6:40 p.m.

**TOWN OF FOUNTAIN HILLS**

By \_\_\_\_\_  
Jay T. Schlum, Mayor

ATTEST AND  
PREPARED BY:

\_\_\_\_\_  
Bevelyn J. Bender, Town Clerk

**CERTIFICATION**

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Work Study Session held by the Town Council of Fountain Hills on the 8th day of December, 2009, in the Council Chambers. I further certify that the meeting was duly called and that a quorum was present.

DATED this 7<sup>th</sup> day of January, 2010.

\_\_\_\_\_  
Bevelyn J. Bender, Town Clerk